File

GROVE EXPLORATIONS LTD.

1979 Annual Report

GROVE EXPLORATIONS LTD.

DIRECTORS & OFFICERS

JOHN S. GODFREY
President and Director

DURWARD J. BROWN
Vice-President and Director

CARL R. JONSSON
Secretary and Director

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Chartered Accountants
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VANCOUVER STOCK EXCHANGE
TICKER SYMBOL G.V.X.
536 Howe Street
Vancouver, B.C.
V6C 2E1

CAPITALIZATION

Authorized 5,000,000 shares.
Issued at December 31, 1979 —
3,313,005 shares.

THE COMPANY

Grove is a Canadian company, incorporated in the Province of British Columbia, whose business is primarily the acquisition, exploration and development of petroleum and mining properties.

PRESIDENT'S REPORT TO THE SHAREHOLDERS

GROVE EXPLORATIONS LTD.

1979 has proved to be a very active and productive year for your company. It has seen both a substantial increase in the value of its assets and in the price at which its issued shares are trading on the Vancouver Stock Exchange. Successful financings in the year have resulted in raising $1,633,750.00 for the treasury of the company. A private placement of 375,000 shares of the company in March 1980 will provide an additional $1,031,250.00 to the treasury, which places the company in a very strong financial position, free of debt. Options outstanding, if exercised, would provide a further $1,050,000.00 in 1981.

Since entering into oil and gas, your company has participated in the drilling of 28 wells of which 16 have been completed as gas wells and 2 oil wells, a 64% success rate. However, the main emphasis of your company over this past year has been to acquire interests in large blocks of petroleum and natural gas leases in the United States. Grove now has varying interests in over 300,000 acres, encompassing eight petroleum exploration and development programs in the United States and Canada. It has good access to industry opportunities and through contacts established by management, is now being presented with the kind of quality wildcat and production prospects required to sustain and enhance its asset base. Negotiations are currently underway regarding new large acreage prospects in Indiana, Texas and Louisiana.

At the present time, Grove anticipates committing to approximately 20 wells in 1980 on the properties in which they currently have an ownership and working interest position. With success in any of these prospects, the drilling programs would be escalated accordingly. While the company has expended considerable amounts of time and money developing its petroleum interests, it fully intends to continue a program of exploration and development on the French Mine gold property.

As a result of the company's increased participations in the United States, this has led to the company making application to have its shares included in the NASDAQ system in Washington, D.C. which will give additional exposure to the American public. Any analysis of the company's position at this time must weigh heavily on their large acreage holdings in the United States, coupled with their strong cash position to develop these properties.

Grove's progress since last year has attracted considerable shareholder support which management appreciates. With success, the company will grow and its shareholders will prosper accordingly.

Submitted on behalf of the Board

John S. Godfrey
President

March 15, 1980

The Annual Meeting of the company is to be held at 10.30 a.m. on Wednesday, April 30, 1980, in the Holiday Inn — City Centre, 1133 West Hastings Street, Vancouver, British Columbia.

UNITED STATES

Nebraska (Map 1)

The company owns an undivided 10% interest in 240,000 acres of petroleum and natural gas leases in various counties in the state of Nebraska. *Southland Royalty Company* of Fort Worth, Texas, are the operators of this project and the participants have agreed to an initial exploration program of $1,000,000.00, which is now under way. Refer to the following pages for a more complete prognosis and land map of this prospect.

Colorado (Map 2)

The company owns an undivided 10% interest in approximately 24,000 acres of oil and gas leases in Prowers County, Southeast Colorado. A well was drilled on this property in the summer of 1979 to a depth of 5,000 feet that encountered oil and gas in the Marmaton and Keyes formations. The well was not completed due to loss of circulation. Subsequent to this drilling, a major seismic program has been undertaken by the participants, coupled with the leasing of more property. A drilling program is planned for the Spring of 1980 to test the seismic anomalies.

Pennsylvania (Map 3)

The company participated in the drilling of 7 successful gas wells in Clearfield and Jefferson counties, Pennsylvania in 1979. These wells were drilled on three separate plays known as *Rockton, Notto* and *Cramer*, encompassing approximately 2000 acres of leases, in which the company has a 10% working interest. Watson and Swanson Inc. of Houston, Texas, as operators, have advised us that all wells have been tied in and that a cash flow will commence forthwith. The company is in the course of finalizing agreements with Watson and Swanson to participate in the drilling of 5 commitment wells involving 6,800 acres in two prospects known as *Madera* and *Grampian*. These wells are to commence prior to April 1, 1980 and the company will have a 10% net working interest in these two new plays. Should results prove successful, more than 100 potential locations are available for development on this acreage.

Kentucky (Map 4)

The company acquired a 10% working interest in over 11,500 acres in Owsley, Clay and Perry Counties in Southeastern Kentucky. Additional acreage may be available which would increase the total holdings to 14,000 acres. Prospective pay zones include the Newman Limestone, an oolitic and dolomitic limestone occurring at approximately 1,200 feet, and deeper Devonian horizons at approximately 2,000 feet. Completed well costs are anticipated to be of the order of $75,000 per well.

The regional setting of the acreage is on the eastern flank of the Cincinnati Arch and wells have been drilled in this general area as far back as 1915-1926, while the Mistletoe Field drilled in 1924 flowed at rates of up to 40 barrels per day per well. Significant gas was produced with this oil and oil seepage still exists from one of these old wells. Revived activity in the sixties encountered gas and oil, but low wellhead prices precluded full development. However, with the benefit of improved logging, fracturing and completion techniques, this block of largely untested acreage close to known production, must be regarded as highly attractive. Drilling on this acreage is expected to start by April 1980.

CANADA

Forestburg, Alberta (20,000 acres — 1.875% working interest) (Map 5)

The company has participated in the drilling of 7 successful gas wells in the Forestburg prospect, operated by Signalta Resources Ltd., of Calgary. A gas plant, consisting of a compressor and dehydrator have been installed with the wells being tied in for delivery into the Alberta Gas Trunkline, and cash flow anticipated by March 1980.

Bigoray, Alberta (640 acres — 6.25% working interest) (Map 6)

The company has participated in the drilling of a successful Pekisko gas well that tested in excess of three million feet on a 320 acre site. Landbank Minerals Ltd., as operator and Amoco Canada have agreed to pool this section on a 50/50 basis, and have further agreed to equalize well costs at $450,000.00. Amoco Canada will be the operator of the pooled section with cash flow anticipated by March 1980.

Turin Alberta (1,400 acres — 10% working interest) (Map 7)

The company has participated in the drilling of 2 successful oil wells on this prospect, which have provided a cash flow over the past year. Conrad Resources Ltd., as operator, have informed us that an offer for the sale of this property has been accepted conditional upon title verification and agreement of participants.

Cessford, Alberta (4,480 acres — 20% working interest) (Map 8)

The company has participated in the drilling of a Glauconitic gas well on this property which is currently shut in. Conrad Resources Ltd. have further informed us that an offer for the sale of this property has been

accepted conditional upon title verification and agreement of participants.

MINING

French Mine, Hedley, B.C. (Map 9)

The company holds under option 11 crown grant and 6 located mineral claims near Hedley, B.C. During the period 1949 - 1961, the French Mine was operated as a high grade gold mine. Production amounted to 84,926 tons, averaging 0.62 ounces of gold, with a gross value (@ 35.00 oz.) of $1,863,570.00. A drilling program has been designed by the company engineer to test for extensions and repetitions of the French ore zone. This program will commence in the Spring of 1980.

LOCATION

1. Nebraska
2. Colorado
3. Pennsylvania
4. Kentucky
5. Forestburg, Alberta
6. Bigoray, Alberta
7. Turin, Alberta
8. Cessford, Alberta
9. French Mine, Hedley, B.C.

The Company is fortunate in having purchased a ten percent undivided interest in a 240,000 acre block in N.W. Nebraska. The acreage is located in the Denver Basin along the North Platte River Valley, and in a relatively unexplored area, close to Cretaceous and Pennsylvanian oil and gas production. Lands approximately 12 to 15 miles to the southwest were recently sold for as much as $750.00 per acre.

Relatively few wells have tested all potential zones in the Denver Basin. The Niobrara Formation, the D and J Sands and the Basal Pennsylvanian Sands are all productive in the Basin, and are the main objectives. There are, however, a total of nine probable horizons, all of which will be tested by the initial drilling.

Several major independent companies are exploring the Niobrara Formation in the immediate area. The main area which has been produced is the Beecher Island Field in Colorado. Production varies from 100 to 300 Mcf per day from 21 wells. To date 598,000 Mcf have been produced. The Niobrara is a recent exploratory target and is a good objective underlying the company's acreage. Recent drilling and completion practice promises to enhance productivity from this zone.

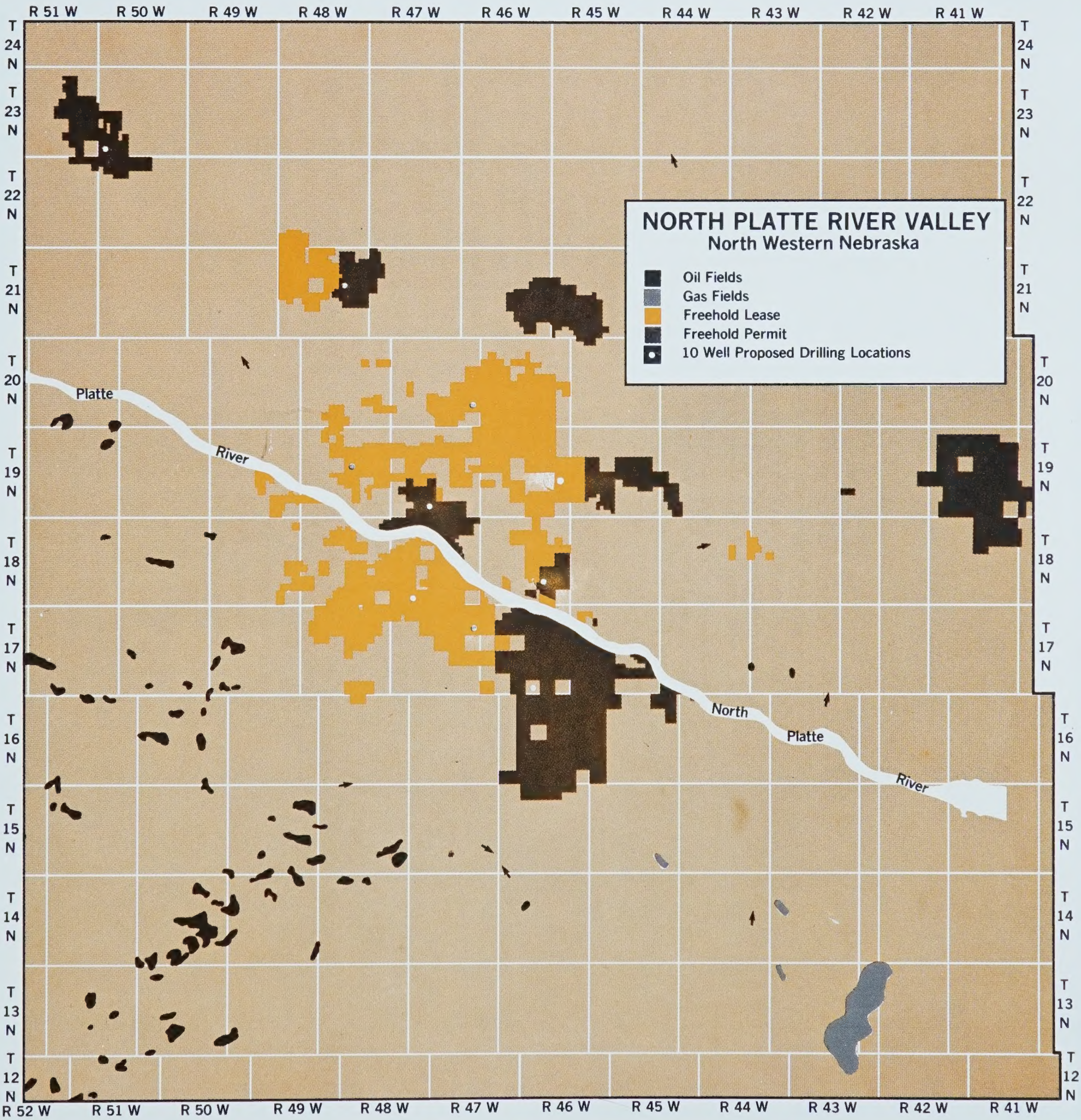
Most production in the oilfields close to the prospect is from the D and J Sandstones with good porosity and permeabilities and high gravity oil. There has been over 600 million barrels of oil produced from the Denver-Julesburg Basin in Colorado, Wyoming and Nebraska. Some of these fields are within a 20 mile radius to the southwest of the prospect. Included are such fields as the Wilson Ranch having produced 8+ million barrels, the Kenmac Field 3.8 million, Reimber 3.0 million, Gurley 2.7 million, S.W. Potter 7.0 million, Dormar 4.9 million, Prebble 3.0 million, Cook 4.9 million. Numerous other fields produce both oil and gas and the trend appears to continue over the prospect.

The Basal Pennsylvanian Sand has produced 40 million barrels of oil from the Sleepy Hollow Field in southern Nebraska. A similar reserve can be anticipated underlying the Company acreage.

Markets for both oil and gas are available. Oil would initially be trucked to a pipeline outlet at nearby Gurley, Nebraska. When sufficient oil production is obtained a pipeline would be installed.

The Kansas-Nebraska pipeline runs through the prospect along the North Platte River. Also of major significance is a new proposed pipeline to be built by Natural Gas Pipeline Company of America which will run approximately 10 miles south of the prospect lands. This new pipeline will run from northeastern Utah through to southeastern Nebraska. This new proposed line will ensure a market and gas contracts for any gas produced from this prospect.

GROVE EXPLORATIONS LTD.



GROVE EXPLORATIONS LTD.

To the Shareholders of
Grove Explorations Ltd.:

We have examined the balance sheet of Grove Explorations Ltd. as at December 31, 1979 and the statements of deficit, deferred expenses and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1979 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Hansen Kerr & Hethey

Chartered Accountants

Vancouver, British Columbia
February 15, 1980

Consolidated Balance Sheet
As At December 31, 1979

GROVE EXPLORATIONS LTD.

ASSETS	**1979**	1978
Current Assets:		
Cash	$ —	$ 6,870
Term deposits	1,380,279	160,000
Total current assets	1,380,279	166,870
Other Assets:		
Oil and gas exploration costs (Note 2)	620,051	176,999
Deferred general and administrative expenses	37,169	35,810
Deferred exploration and development expenses	57,091	48,324
Incorporation costs	945	945
Total other assets	715,256	262,078
TOTAL	$2,095,535	$428,948

LIABILITIES	**1979**	1978
Current Liabilities:		
Accounts payable	$ 28,920	$ 550
Bank overdraft	4,467	—
Total current liabilities	33,387	550

SHAREHOLDERS' EQUITY		
Share capital:		
Authorized — 5,000,000 common shares of a par value of $.50 each (1978 — 3,000,000 common shares)		
Issued — 3,313,005 shares (1978 — 2,463,005 shares) (Note 3)	2,132,905	499,155
Deficit	(70,757)	(70,757)
Net shareholders' equity	$2,062,148	$428,398
TOTAL	$2,095,535	$428,948

Approved by the Directors

John A. Godfrey
Director

Duncard J. Brown
Director

The accompanying notes are an integral part of the financial statements.

Statement of Deferred Expenses
Year Ended December 31,

	1979	1978
Deferred General and Administrative Expenses:		
Bank charges and interest	**$ 147**	$ 995
Fees and membership	**3,010**	3,885
Legal and audit	**21,889**	10,973
Management fees	**17,000**	—
Office, stationery and supplies	**15,934**	8,594
Telephone	**3,996**	1,532
Travel	**6,445**	—
Trust company fees	**3,381**	1,986
	71,802	27,965
Less interest earned on term deposits	**70,443**	6,229
Deferred General and Administrative Expenses for the year	**1,359**	21,736
Balance at beginning of the year	**35,810**	14,074
Deferred General and Administrative Expenses at end of the year	**$37,169**	$35,810
Deferred Exploration and Development Expenses:		
Assaying	**$ 23**	$ 536
Assessment fees	**178**	101
Engineering and field supervision	**6,874**	9,230
Insurance — truck	—	290
Miscellaneous	—	255
Rentals and repairs	**637**	642
Travel and accommodation	**6,327**	4,420
	14,039	15,474
Less proceeds on sale of oil and gas	**5,272**	4,328
Deferred Exploration and Development Expenses for the year	**8,767**	11,146
Balance at beginning of the year	**48,324**	37,178
Deferred Exploration and Development Expenses at end of the year	**$57,091**	$48,324

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Financial Position
Year Ended December 31,

	1979	1978
Source of Funds:		
Sale of share capital	**$1,633,750**	$367,750
Sale of fixed assets	**—**	7,996
Total	**1,633,750**	375,746
Use of Funds:		
Increase in deficit	**—**	6,178
Expenditures for oil and gas exploration (Note 2)	**443,052**	176,999
Increase in deferred general and administrative expenses	**1,359**	21,736
Increase in deferred exploration and development expenses	**8,767**	11,146
Total	**453,178**	216,059
Increase in Working Capital for the year	**1,180,572**	159,687
Working Capital at beginning of the year	**166,320**	6,633
Working Capital at end of the year	**$1,346,892**	$166,320

Statement of Deficit
Year Ended December 31,

	1979	1978
Deficit at beginning of the year	**$70,757**	$64,579
Loss on sale of fixed assets	**—**	6,178
Deficit at end of the year	**$70,757**	$70,757

The accompanying notes are an integral part of the financial statements.

1. Accounting Policy:

Deferred development cost:

It is the company's policy to capitalize all costs and expenses relating to mineral and oil and gas properties for which exploration and development work is being undertaken. Accordingly, all related costs and expenses for properties abandoned are written off to deficit.

2. Oil and Gas Exploration Costs:

The company has incurred exploration costs and expenses for oil and gas in the following areas:

	1978	Additions	1979
Cessford Prospect (a):			
Dryhole costs	$ 17,860	$ —	$ 17,860
Completion costs	25,380	—	25,380
Forestburg Properties (b)	18,435	22,431	40,866
Bigoray Prospects (c)	51,064	1,738	52,802
Turin (d)	29,290	23,326	52,616
Bassano (e)	19,970	—	19,970
Atlee Buffalo (f)	15,000	—	15,000
Rockton Prospect (g)	—	113,589	113,589
North Platte River Valley Prospect (h)	—	213,511	213,511
Bristol and Lamar Prospects (i)	—	61,490	61,490
Kentucky (j)	—	6,967	6,967
	$176,999	$443,052	$620,051

(a) Cessford Prospect:

The company entered into an agreement dated June 20, 1978 with Caribe Holdings Ltd. to participate in the drilling of a well for gas production in the Cessford area, Alberta. The company agreed to pay $17,860 as its share of the dryhole costs of the well and to earn a 20% net working interest in 4,480 acres. The company has paid $25,380 towards completion and gathering line costs. The working interests in the well are subject to Crown gross royalties, a 10% gross overriding royalty to Alberta Petroleum & Resources Co. Ltd. and a 5% gross overriding royalty reserve to Caribe Holdings Ltd. Caribe, however, has gone into receivership. The company, however, has not lost the interests in properties earned through its agreements with Caribe.

Management states that negotiations are underway to sell the entire Cessford acreage and wells.

As a statement date one well has been drilled and completed as a Glauconitic gas well and is shut in at present.

(b) Forestburg Properties:

By an agreement dated July 10, 1978, the company acquired from Arel Exploration Ltd. a 1.875% working interest in a farm out agreement covering 20,000 acres situated in the Forestburg area, Alberta.

As a statement date twelve wells have been drilled, seven of which are being completed as productive wells. The wells will be tied into the Alberta Gas Trunkline in January 1980.

As a result of a 15% net carried interest reserve in favour of J.R. & S. Holdings Ltd., the company's working interests are effectively reduced to 1.594%. Further, the lands are subject to Lessor's Royalties and to gross overriding royalties which vary between 2% and 4.5%. The original leaseholders have been granted royalties which, in the case of wells completed as gas wells of 15% (minimum $.12 per thousand cubic feet) on the well-head value of the gas, or in the case of wells completed as oil wells, sliding scales between a minimum of 5% and a maximum of 15% of the wellhead value of the oil produced. Upon the company and the other participants who are paying the costs of the drilling having recovered 100% of their costs, the original companies will be entitled to elect to convert their reserved royalties to an undivided working interest equal to 50%. If this election occurs, the company's net working interest will then be reduced to a .797% working interest.

(c) Bigoray Prospects:

The company entered into an agreement dated June 21, 1978 with Landbank Minerals Ltd. where the company agreed to participate in the drilling of an oil and gas well.

The company has a 6.25% working interest in 640 acres and at statement date had participated in a successful Pekisko gas well.

(d) Turin, Alberta:

By an agreement dated August 3, 1978 with Caribe Holdings Ltd., the company acquired a 10% working interest in the lands in the Turin area covering 1,400 acres.

At present two wells have been drilled and these have been producing at the rate of approximately 100 barrels per day (See Note 2(a) relative to Caribe Holdings Ltd.)

(e) Bassano:

By an agreement dated in August 1978 the company obtained for the consideration of $9,710 a participating agreement with Caribe Holdings Ltd., whereby Caribe agreed to sell an undivided net working interest in the earning wells and land it had acquired from Siebens Oil & Gas Ltd. In the agreement with Siebens, Caribe had acquired by drilling an earning well, the right to earn 100% net working interest in P & NG rights, being subject to Crown Royalty or Mineral Taxes, and 15% gross overriding royalty payable to Siebens, and 5% gross overriding royalty payable to Caribe.

The participation agreement grants the company a net interest in and to all Caribe's share of net proceeds derived under the Siebens agreement and requires the company to contribute a further payment of 10% to all production equipment and costs of completing and production testing of the earning well.

The company has participated in the drilling of a well on this prospect, but it has been abandoned as a dryhole. (See Note 2(a) relative to Caribe Holdings Ltd.)

(f) Atlee Buffalo:

In a letter agreement dated June 30, 1978 Arel Exploration Ltd. negotiated a farm out of lands located at the Atlee area, Alberta with thirteen different companies. Under the agreement, Arel Exploration Ltd. is committed to drill a 3,350 foot Mississippian test well at a location on the farm out lands. Arel also has two sixty-day options to drill two additional wells to earn two additional blocks of land. Arel offered the company a participating interest in the above noted agreement, whereby the company is required to pay 13⅓ of the costs of the drilling and abandoning or completing. Based on the outlet value on the wellhead of each of the farm out and option wells, the company will earn an undivided 10% working interest before payout of the farm out test well and an undivided 5% working interest after payout and 5% on the balance of the farm out land and option lands if earned. At statement date one well has been drilled and abandoned as a dryhole.

(g) Rockton Prospect — Pennsylvania:

The company has entered into an agreement with Watson & Swanson Inc. of Houston, Texas to acquire a 10% working interest in an oil and gas drilling program on leases covering approximately 2,000 acres in the state of Pennsylvania. The leases are subject to various overriding royalties which effectively reduce the company's working interest to 7% for gas and 6.53% for oil. Seven wells have been drilled on the property and commercial quantities of gas have been located.

(h) North Platte River Valley Prospect — Nebraska:

The company has entered into an agreement on May 10, 1979 to purchase an undivided 5% interest in oil and gas leases covering 239,342 acres in the state of Nebraska. The purchase price for this option to purchase if $175,000 (U.S.). In addition to the purchase price the company must pay $10,000 (U.S.) for each well drilled in the leases up to a maximum of ten wells. In the agreement the company has granted the vendor (Umex Oil Inc.) the option to, in lieu of collecting $10,000 for each well drilled, require that the company issue and allot to Umex 5,000 shares in the capital of the Company. The company has been advised that Glenwood Resources Limited (the operator) has entered into an agreement with Umex dated July 18, 1978 wherein Glenwood has been granted the right to purchase and earn a 75% interest in the leases by paying 100% of the costs of drilling of ten wells in the leases. To the extent that Glenwood complies, the company will be carried with respect to the costs of the wells drilled by Glenwood. If Glenwood does not satisfy the terms of its agreement with Umex or does not drill at least ten wells by July 18, 1980, all of its rights and interests in the leases will be cancelled. Thereafter the company will have to pay its share of any costs of drilling on the leases. The aforementioned $10,000 per well will not have to be paid with respect to wells drilled by other than Glenwood Resources Ltd. The agreement also grants to the company the option to acquire an additional 5% interest in the leases on the same terms as the first 5%. The company is obligated to exercise its option not later than the date of the commencement of drilling in the first well. (See Note 7 concerning modification of this agreement.)

(i) Bristol and Lamar Prospects — Colorado:

The company has entered into an agreement with Umex Oil Inc. to purchase an 18.75% working interest in oil and gas leases on approximately 19,000 acres in the state of Colorado. The company agreed to purchase this interest for $28,399 (U.S.). The company also has the right to acquire a similar interest at the same price per acre in any additional acreage acquired by Umex in the area of the existing leases. The operator has estimated the dryhole costs of the first well to be $112,500 and the company has agreed to pay 25%

to the point of running casing or through abandonment. Of the costs of completion or maintenance the company will pay its 18.75% share. A seismic survey has now been completed at a cost of approximately $100,000 (U.S.). This survey covered both prospects and the company will participate in the cost to the extent of its net working interest.

The company has entered into an agreement with Cannon Resources Ltd. in which it agreed to sell to Cannon an 8.75% working interest in the leases. Cannon has agreed to pay for the purchase of its interest in the leases and its share of the dryhole costs of the first well the sum of $34,000. For any costs incurred for completion of the first well Cannon will pay its proportionate 8.75% share.

(j) Kentucky:

The company has acquired a 10% working interest in approximately 11,500 acres in southeastern Kentucky.

3. Share Capital:

	Shares Issued	Par Value	Discounts	Net
For gas	2,478,005	$2,223,002	$ 97,147	$2,125,855
For mineral properties	835,000	417,500	410,450	7,050
	3,313,005	$2,640,502	$507,597	$2,132,905

On April 20, 1979 the authorized capital of the company was increased from 3,000,000 shares to 5,000,000 shares.

4. Directors' Incentive Option:

The company granted to its directors an option to purchase 42,500 shares in its capital stock at and for a price of $.35 per share, exercisable at any time on or before June 15, 1979, with the proviso that any of the options not exercised prior to that date may be exercised thereafter until June 15, 1980 at a price of $.40 per share. A further option to purchase an additional 42,500 shares may be exercised at a price of $.40 per share at any time between June 15, 1979 and June 15, 1980. The agreement provides that the directors may not exercise any of the options until they have been approved by a general meeting of the shareholders of the company.

5. Warrants Outstanding:

In connection with the public financing done by the company during 1979 an amount of 400,000 "A" share purchase warrants and 200,000 "B" share purchase warrants remained outstanding at the year-end. These warrants are convertible into one share each at a price of $3.35 per share and must be exercised before February 8, 1980. As at report date 1,600 warrants had been exercised.

6. Other Properties:

French Mine:

The company holds, under option, mineral claims in the Keremeos area of British Columbia. Management states that due to increased gold and copper prices an expanded program of explorations will take place during 1980.

7. Subsequent Events:

On January 22, 1980 the company concluded an agreement which amends an agreement made May 10, 1979 with Umex Oil Inc. of Denver, Colorado. The amendment adjusts the cost to the company from $175,000 (U.S.) to $120,000 (U.S.) to exercise its option.

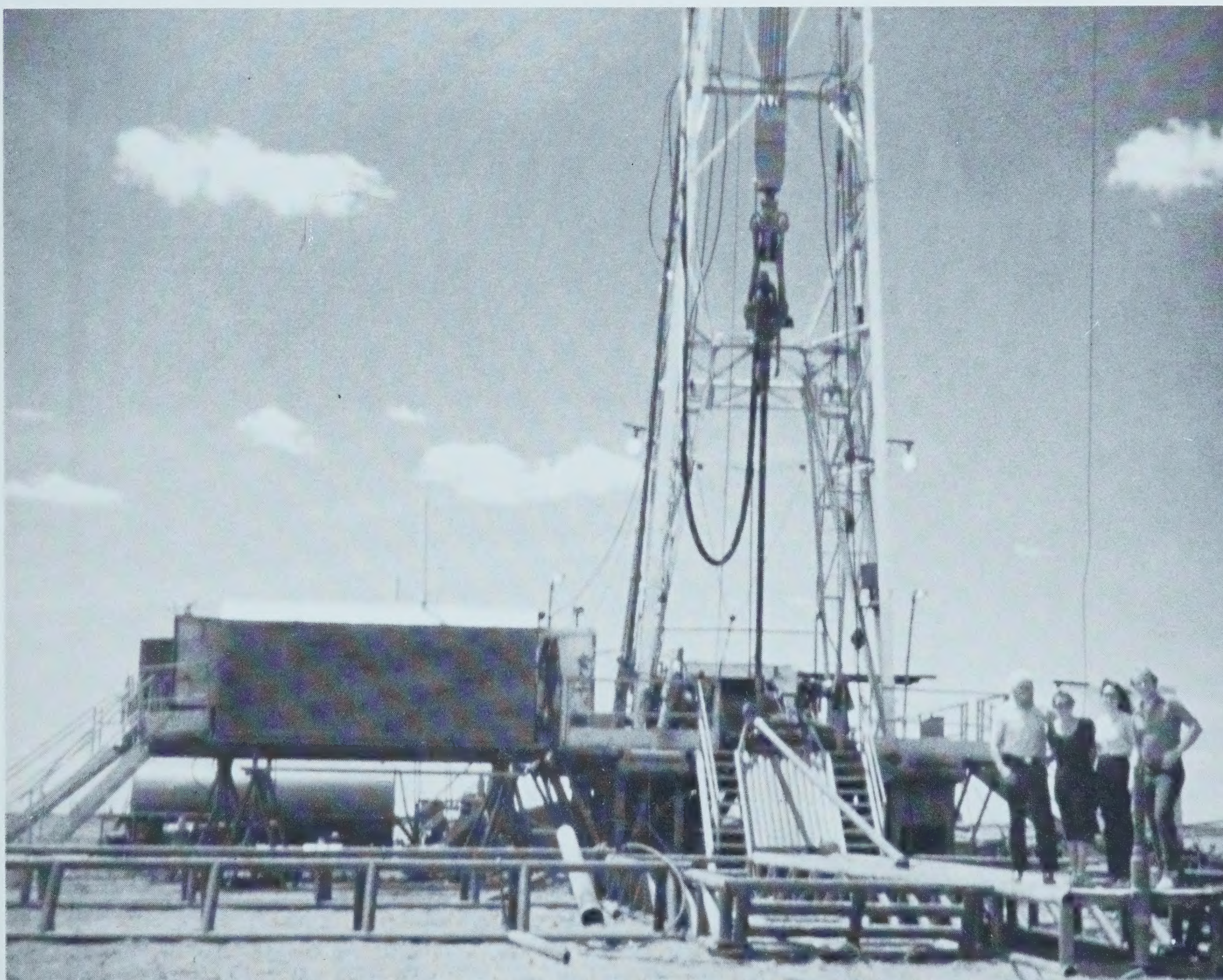
As a part of the amending agreement the company exercised its option and paid $20,000 /U.S.). The remaining $100,000 is to be paid as follows: $50,000 (U.S.) upon execution of an operting agreement with Southland Royalty Company and $50,000 (U.S.) within seven days after when Southland shall have made request for payment of the cost of the proposed work. If the agreement with Southland is not concluded by March 31, 1980 the company may elect to recall its $20,000 (U.S.). Under this agreement Umex Oil Inc. warrants that the previous agreement with Glenwood Resources Limited has been fully and completed terminated (see Note 2(h)).

8. Remuneration of Officers and Directors:

An amount of $17,000 was paid during the year as management fees to a company controlled by a director of the company. Legal fees were paid to a firm in which one of the company's directors is a partner; accordingly, he has benefited indirectly.

GROVE
EXPLORATIONS LTD.

Horn #1 Well, Prowers County, Colorado



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